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Surname [REDACTED]

JUN 1 1988

DIST. DIR. OF INT. REV.
BROOKLYN, N.Y. 11201
EP-EO
Review Staff

DEC 08 1987

Employer Identification Number: [REDACTED]
Key District Office: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(c)(6) of the Internal Revenue Code. Based on the information submitted, we have concluded that you do not qualify under that section.

You were incorporated on [REDACTED]. The purposes for which you were organized and the services you intend to perform are as follows:

- (1) To provide an efficient system of funding for [REDACTED] companies through the capital market;
- (2) To contract with [REDACTED] and/or [REDACTED] to provide services essential to the funding system;
- (3) To act as an agent for [REDACTED] in the process of selling debentures pursuant to Section 303 of the Small Business Investment Act of 1958, as amended (the "Act"), including administration of the terms, conditions, issuance, placement and sale of such debentures;
- (4) To act as an agent for [REDACTED] in the process of selling trust certificates pursuant to Section 321 of the Act, including administration of the terms, conditions, formation, pooling, issuance, placement and sale of such certificates;
- (5) To negotiate, on behalf of [REDACTED], the terms and conditions of such debentures or trust certificates;
- (6) To contract with brokers and dealers in such manner and upon such terms as the Corporation shall deem appropriate;
- (7) To act as an agent for [REDACTED] to provide necessary services related to debentures sold pursuant to Section 303 of the Act, including services of central registration, transfer, trustee, custodian, payment, collection and servicing;

- [REDACTED]
- (8) To act as an agent for [REDACTED] to provide necessary services related to trust certificates sold pursuant to Section 321 of the Act, including services of central registration, transfer, trustee, custodian, payment, collection and servicing;
 - (9) To disclose to any purchaser of such debentures or trust certificates information on the terms, conditions and yields of such instruments.

You are not a membership organization.

You will be funded from the proceeds of the sale of debentures based upon a budget approved by [REDACTED].

Section 501(c)(6) of the Code provides for the exemption from federal income tax of business leagues, chambers of commerce and boards of trade not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having some common business interest, the purpose of which is to promote such interest and not to engage in a regular business of a type ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade, and its activities should be directed to the improvement of business conditions in one or more lines of business as distinguished from the performance of particular service for individual persons... A stock or commodity exchange is not a business league, Chamber of Commerce or board of trade within the meaning of section 501(c)(6) and is not exempt from tax.

An organization of investment brokers formed to investigate causes of bond defaults and to perform other services members would have been required to perform in making bond investments was held to be performing particular services for members and therefore exemption was denied. Northwestern Municipal Association v. U.S., 99 F2d 460 (1938).

The original extension of tax-exempt status to chambers of commerce and similar organizations designed to promote the trade and commerce of a community was intended to cover membership organizations of a type characteristically supported by dues. For example, statements submitted by the United States Chamber of Commerce concerning the relevant portion of the Income Tax Act of 1913 made explicit references to the "association" and "membership" character of the organizations in question. The membership character of the organization for which exemption was asked is also

implicit in repeated allusions to "chamber of commerce" as being representative of the type of organizations for which exemption was sought. On the matter of the income characteristics of such organizations, the Chamber emphasized that:

Exemption is asked only for commercial organizations which are not organized for profit. These organizations receive their income from dues paid by their members, a form of voluntary tax which business men pay if they may receive in common with all other members of their communities or of their industries the benefits of cooperative study of local development, of civic affairs, of industrial resources, and of local, national, and international trade.

See, Briefs and Statements, Senate Committee on Finance, 63d Cong. 1st Sess. 2001 (1913). We think it obvious that, in enacting section 501(c)-(6), Congress was responding to the representation of the Chamber of Commerce that the section was intended to apply only to membership organizations which further the common business interests of their members and which are financed through membership dues. The legislative history of the statute, and the rules of statutory construction applicable to subchapter F, provide that only membership organizations supported by membership dues or assessments are included in the terms of the exemption. Thus, an organization which is not in fact membership supported lacks the most significant characteristic common to organizations for which exemption was provided under section 501(c)(6). Accordingly, we believe that an organization which has demonstrated a pattern of non-membership support must necessarily fail a critical test of exemption under section 501(c)(6).

Other publications to which we have referred in the past support the conclusion that trade associations and business leagues as they were known at the time of enactment of the original exempting statute, were membership organizations and were primarily supported by membership dues. See, e.g., United States Department of Commerce, Trade and Professional Association of the United States 3-4 (1942); National Industrial Conference Board, Inc., Trade Associations--Their Economic Significance and Legal Status 7-16 (1925); and American Trade Association Executives, Handbook (1924).

Since you are not a membership organization and are not supported by membership dues in any meaningful way, you are not an organization of the same general class as a chamber of commerce or business league.

[REDACTED]

Even if you were a membership organization, exemption would still be precluded because your activities would constitute particular services like those of the investment brokers described in Northwestern Municipal Association v. U.S. (supra).

Accordingly, we have concluded that you are not exempt from federal income tax under section 501(c)(6) of the Code.

You have the right to protest this ruling if you believe that it is incorrect. To protest you must submit a statement of your views with a full explanation of your reasoning. This statement, signed by one of your principal officers, must be submitted in duplicate within 30 days from the date of this letter. You also have the right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your principal officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies of it will be forwarded to the District Director, Baltimore Maryland. Thereafter, any questions about your federal income tax status or the filing of tax returns should be addressed to the District Director of Internal Revenue.

If you decide to protest this proposed ruling, you will expedite our receipt of your communication by placing the following symbols on the envelope as part of our address: [REDACTED]. These symbols do not refer to your case but rather to its location.

Sincerely yours,

(Signed) [REDACTED]

[REDACTED]
Chief, Exempt Organizations
Rulings Branch

cc: [REDACTED]

cc: [REDACTED]